

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 NEA-09 IO-10 H-02 L-02 PRS-01

PA-01 USIA-06 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 TAR-01 ERDA-05

DODE-00 FPC-01 INT-05 PM-03 SAM-01 OES-03 FEA-01 /119 W

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P 300040Z APR 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 2785

INFO AMEMBASSY SEOUL PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 7/29/75

TAGS: EAID, EFIN, KS

SUBJECT: ADB TECHNICAL ASSISTANCE PROPOSAL FOR SAMRANGJIN
PUMPED STORAGE PROJECT (KOREA)

SUMMARY: ADB MANAGEMENT PROPOSES \$1.0 MILLION
EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES
AND \$100,000 TECHNICAL ASSISTANCE (TA) GRANT TO
FINANCE FOREX COST OF PROJECT PREPARATION OF 300
TO 500 MW CAPACITY PUMPED STORAGE POWER STATION
AT SAMRANGJIN IN SOUTHEAST OF KOREA. TA PROJECT
CONSISTS OF PREPARATION OF FEASIBILITY STUDY,
DETAILED ENGINEERING DESIGNS AND TECHNICAL
SPECIFICATIONS AND TENDER DOCUMENTS AS WELL AS
STUDY OF TARIFF RATES OF KOREA ELECTRIC COMPANY
(KECO) TO DETERMINE APPROPRIATE TARIFF LEVELS

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AND SELF-FINANCING RATIO. USADB RECOMMENDS

FAVORABLE NAC ACTION.

1. ADB DOC. R39-75 WITH ATTACHMENTS DESCRIVING
PROPOSED LOAN AND GRANT POUCHED ADDRESSEES APRIL
18. BOARD CONSIDERATION SCHEDULED MAY 8.

2. ADB MANAGEMENT PROPOSING \$1.0 MILLION LOAN
FROM ORDINARY CAPITAL RESOURCES AND \$100,000 TA
GRANT TO KECO FOR PUMPED STORAGE PROJECT LOCATED
IN SOUTHEAST KOREA NEAR SAMRANGJIN, A SMALL TOWN
ABOUT 30 KM. NORTHWEST OF BUSAN CITY. PROCEEDS
WILL FINANCE FOREX COST OF (A) PREPARATION OF
FEASIBILITY STUDY AND DETAILED ENGINEERING DESIGN
AND TENDER DOCUMENTS FOR PUMPED STORAGE POWER
STATION AND ASSOCIATED TRANSMISSION SYSTEM AND
(B) UNDERTAKING STUDY OF TARIFF LEVELS OF KECO.
PROPOSED TERMS FOR LOAN ARE 10 YEAR AMORTIZATION
INCLUDING 2 YEAR GRACE PERIOD, 8-3/4 PERCENT
INTEREST. KECO TO BE BORROWER AND EXECUTING
AGENCY AND REPUBLIC OF KOREA THE GUARANTOR.

3. IN PAST TEN YEARS DEMAND FOR ELECTRICITY IN
KOREA GREW BY AVERAGE ANNUAL RATE OF 20 PERCENT.
THERMAL POWER PLANTS SUPPLY ABOUT 90 PERCENT OF
ELECTRICITY REQUIREMENTS. BECAUSE OF SCARCITY OF
COAL RESOURCES AND LIMITED HYDROPOWER POTENTIAL,
KOREA'S FUTURE ELECTRIC POWER DEVELOPMENT WILL HAVE
TO CONTINUE TO DEPEND ON IMPORTED FUELS, OIL AND
NUCLEAR FUEL. ADDITION OF PUMPED STORAGE HYDROPOWER
STATIONS TO POWER SYSTEM IS ONE WAY TO HELP MEET
FUTURE REQUIREMENTS. (PUMPED STATIONS HAVE TWO
RESERVOIRS AT DIFFERENT ELEVATIONS. WATER IS PUMPED
FROM LOWER TO UPPER RESERVOIR DURING OFF PEAK HOURS
AND RELEASED AT PEAK HOURS.)

4. PRESENT PLANS ARE FOR KECO TO BUILD TWO SUCH
STATIONS, ONE NEAR SEOUL, TO BE FINANCED WITH
JAPANESE ASSISTANCE, AND ONE NEAR SAMRANGJIN.
PROPOSED SAMRANGJIN STATION WOULD BE CONNECTED TO 345
KV GRID ABOUT 100 TRANSMISSION LINE KILOMETERS FROM
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KORE, THE SITE OF FIRST TWO NUCLEAR POWER UNITS, AND
ABOUT 80 TRANSMISSION LINE KILOMETERS FROM NAEPORI
WHERE SECOND NUCLEAR POWER PLANT IS TO BE CONSTRUCTED.
PUMPED STORAGE PROJECT WOULD INCLUDE TWO DAMS TO CREATE
ONE UPPER AND ONE LOWER RESERVOIR CONNECTED
BY WATERWAY, UNDERGROUND POWER STATION, ANCILLARY
STRUCTURE AND TRANSMISSION LINE TO NORTH BUSAN
SWITCHING STATION. COST OF SUCH PROJECT NOW

ESTIMATED AT \$80 - 100 MILLION, INCLUDING \$50 -
60 MILLION IN FOREIGN EXCHANGE.

5. KECO, THE PROPOSED BORROWER AND EXECUTING
AGENCY, IS GOVT-CONTROLLED CORPORATION ESTABLISHED
IN 1961 BY MERGER OF THREE EXISTING ELECTRIC UTILITY
COMPANIES. IT IS SOLE SUPPLIER OF ELECTRICITY IN
KOREA. APPROXIMATELY 50 PERCENT OF COMPANY IS
GOVT-OWNED, AND MINISTRY OF COMMERCE AND INDUSTRY
HAS MAIN RESPONSIBILITY FOR SUPERVISION,
REGULATION AND CONTROL. BANK HAS BEEN IMPRESSED BY
KECO'S OVERALL TECHNICAL OPERATING PERFORMANCE.

6. PART A OF PROPOSED TA IS TO BE DIVIDED INTO TWO
PHASES. PHASE 1 WOULD BE PREPARATION OF FEASIBILITY
STUDY TO ESTABLISH OPTIMAL DIMENSIONS OF POWER STATION,
TAKING INTO CONSIDERATION ALL POSSIBILITIES OF SITE
IN RELATION TO KECO'S POWER SYSTEM AND LATEST
TECHNOLOGICAL DEVELOPMENTS IN PUMPED STORAGE EQUIPMENT.
THIS STUDY WOULD BE REVIEWED BY KECO AND BANK. ON

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BASIS OF FEASIBILITY STUDY'S FINDINGS AND RECOMMENDATIONS, PHASE 2 WOULD BE IMPLEMENTED IF KECO AND BANK AGREE THAT PROJECT IS FEASIBLE. PHASE 2 WOULD PROVIDE FOR PREPARATION OF DETAILED DESIGNS AND TENDER DOCUMENTS AFTER WHICH EARLIER COST ESTIMATES WILL BE REVIEWED AND COMPUTATIONS OF FEASIBILITY STUDY UPDATED. PROVISION ALSO BEING MADE FOR TRAINING OF TWO KECO ENGINEERS AT PUMPED STORAGE STATIONS ABROAD.

7 PART B OF TA CONSISTS OF THOROUGH STUDY OF KECO'S TARIFF RATES AND FINANCES TO DETERMINE APPROPRIATE TARIFF LEVELS AND AN APPROPRIATE SELF-FINANCING RATIO. THIS STUDY CONSIDERED ESSENTIAL AS RESULT OF WEAKENING OF KECO'S FINANCIAL POSITION OVER LAST FEW YEARS, MAINLY DUE TO RAPIDLY RISING OPERATING COSTS AND INADEQUATE TARIFF INCREASES. KECO HAS PROJECTED VERY LARGE FUTURE CAPITAL REQUIREMENTS AND IS NOT PRESENTLY GENERATING SUFFICIENT INCOME TO FINANCE ITS NEW PROJECTS. IT HAS BEEN LIMITED OFFICIAL USE

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FACING SERIOUS LIQUIDITY PROBLEM IN SERVICING DEBTS, AND DEBT/EQUITY RATION HAS DETERIORATED FROM 57-43 IN 1970 TO 69/31 IN 1974. IN THIS REGARD, GOVT HAS AGREED TO MAKE CASH EQUITY CONTRIBUTION OF APPROXIMATELY \$53.3 MILLION EQUIVALENT IN LOCAL CURRENCY IN 1975. (SEE PARA 2, SCHEDULE 5 OF TA FINANCING AGREEMENT.) FINANCIAL STUDY WILL ALSO EXAMINE OTHER MEASURES SUCH AS ADOPTION OF SUITABLE FUEL PRICE ADJUSTMENT CLAUSE, APPROPRIATE DEBT-EQUITY RATIO, RESTRUCTURING OR RESCHEDULING KECO'S OUTSTANDING INDEBTEDNESS TO GOVT AND GOVT-CONTROLLED INSTITUTIONS, AND RESTRICTIONS ON DIVIDEND PAYMENTS. KECO HAS AGREED TO REVIEW ANNUALLY WITH BANK ADEQUACY OF TARIFFS AND OTHER FINANCIAL ASPECTS AND SEEK NECESSARY APPROVAL TO ADJUST TARIFFS AND TAKE OTHER FINANCIAL MEASURES AS WARRANTED. (SEE PARA 3, SCHEDULE 5 OF TA AGREEMENT.)

8. FOREIGN CONSULTING FIRM FOR PART A WOULD BE EXPECTED TO MAKE USE OF LOCAL ENGINEERING CAPABILITIES TO EXTENT POSSIBLE BY ORGANIZING FULLY INTEGRATED TEAM OF FOREIGN AND LOCAL STAFF FROM LOCAL CONSULTING FIRM. CONSULTANTS WOULD SUBMIT DRAFT FEASIBILITY REPORT WITHIN FOUR MONTHS OF COMMENCING FIELD WORK. DETAILED ENGINEERING WOULD TAKE ADDITIONAL NINE MONTHS. (BASED ON ENGINEERING REPORTS, REQUEST FOR BANK CONSTRUCTION LOAN COULD BE EXPECTED WITHIN

6 TO 18 MONTHS FROM COMMENCEMENT OF ENGINEERING SERVICES.) TA ITSELF EXPECTED TO BE COMPLETED WITHIN TWO YEARS. FOR PART B, FOREIGN CONSULTANTS WILL REVIEW PAST FINANCIAL PERFORMANCE, EXISTING FINANCIAL POLICIES AND MAKE RECOMMENDATIONS REGARDING RATIONAL FINANCIAL POLICIES FOR OPERATION/EXPANSION OF POWER SYSTEM. DRAFT REPORT WILL BE SUBMITTED WITHIN FIVE MONTHS, AND KECO WILL CONSULT WITH BANK PRIOR TO IMPLEMENTATION OF ANY RECOMMENDATIONS. DECISION TO IMPLEMENT TO BE MADE BEFORE ANY SUBSEQUENT LOAN REQUEST IS MADE TO BANK FOR CONSTRUCTION OF HQODLDT. (SEE PARA 1 LIMITED OFFICIAL USE

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(C), SCHEDULE 5 OF TA FINANCING AGREEMENT.)

9. TOTAL COST OF PART A (BOTH PHASES) ESTIMATED AT \$1,740,000 INCLUDING FOREX COST OF \$1,040,000, OF WHICH \$175,000 IS FOR FEASIBILITY STUDY AND \$865,000 FOR DETAILED ENGINEERING DESIGNED AND PREPARATION OF TENDER DOCUMENTS. AN ADDITIONAL \$60,000 IS REQUIRED FOR FINANCIAL STUDY (PART B), BRINGING COMBINED FOREX COST OF TA PROJECT AND FINANCIAL STUDY TO \$1.1 MILLION. PROPOSAL CALLS FOR BANK TO PROVIDE \$100,000 TA GRANT FOR PARTIAL COVERAGE OF FEASIBILITY STUDY AND REMAINING \$1.0 MILLION AS TA LOAN. IF PROPOSED TA LEADS SUBSEQUENTLY TO BANK LOAN FOR CONSTRUCTION OF PUMPED STORAGE STATION, TA LOAN MAY BE INCORPORATED INTO SUCH LOANS. HOWEVER, APPROVAL OF PROPOSED TA DOES NOT COMMIT BANK TO FUTURE FINANCE. KECO WILL PROVIDE \$700,000 LOCAL COST COMPONENT.

10. PROPOSED TA PROJECT IS BASED ON BANK STAFF'S ASSESSMENT THAT CONSTRUCTION OF PUMPED STORAGE STATION APPEARS TO BE TECHNICALLY SOUND AND ECONOMICALLY VIABLE. ELECTRIC POWER IS AN ESSENTIAL ITEM OF INFRASTRUCTURE TO ACHIEVE GOVT'S OBJECTIVE OF BRIDGING INCOME GAP BETWEEN LARGE CITIES AND RURAL AREAS WHERE BULK OF POPULATION LIVES. ADDITION OF PUMPED STORAGE POWER STATIONS TO KOREA'S POWER SYSTEM IS INTENDED TO ASSIST IN ECONOMIC UTILIZATION OF ENERGY IN OPTIMAL MANNER. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST SEOUL'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

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